THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS

FIRST REPORT
FIFTH SESSION, THIRTY-SEVENTH PARLIAMENT

DECEMBER 2004

National Library of Canada Cataloguing in Publication Data

British Columbia. Legislative Assembly. Select Standing Committee on Crown Corporations.
First report

At head of title: The Legislative Assembly of British Columbia.
"5th Session, 37th Parliament."
Submitted to Legislative Assembly of British Columbia.
Cf. Covering letter.
ISBN 0-7726-5263-5

1. Legislative oversight - British Columbia. 2. Corporations, Government - British Columbia - Auditing. 3. Government business enterprises - British Columbia - Auditing. 4. British Columbia. Liquor Distribution Branch - Auditing. 5. Forestry Innovation Investment Ltd. - Auditing. 6. Land and Water British Columbia - Auditing. I. Title. II. Title: Select Standing Committee on Crown Corporations first report.

HJ9921.Z9B74 2004 352.4'39'09711 C2004-960173-3

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105-06018/

LEGISLATIVE ASSEMBLY
PROVINCE OF BRITISH COLUMBIA

December 6, 2004

To the Honourable,
Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *First Report* of the Select Standing Committee on Crown Corporations

The *First Report* covers the Committee's reviews of the Liquor Distribution Branch, Forestry Innovation Investment Ltd., and Land and Water British Columbia, Inc.

Respectfully submitted on behalf of the Committee.

Ken Stewart, MLA
Chair

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COMPOSITION OF THE COMMITTEE

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Harold Long, MLA		Powell River-Sunshine Coast
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Gillian Trumper, MLA	(Member since Oct. 25, 2004)	Alberni-Qualicum
Rod Visser, MLA		North Island
Dr. John Wilson, MLA		Cariboo North
Hon. Patrick Wong, MLA	(Member to Oct. 25, 2004)	Vancouver-Kensington

CLERK TO THE COMMITTEE

Craig James, Clerk Assistant and Clerk of Committees

COMMITTEE RESEARCHER

Jonathan Fershau, A/Committee Research Analyst

TERMS OF REFERENCE

On April 1, 2004, the Select Standing Committee on Crown Corporations was appointed to review the annual reports and service plans of British Columbia Crown Corporations.

In addition to the powers previously conferred upon the Select Standing Committee on Crown Corporations, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;

(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;

(c) to adjourn from place to place as may be convenient; and

(d) to retain personnel as required to assist the Committee,

and shall report to the House as soon as possible or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

COMMITTEE REVIEW PROCESS

On April 1, 2004, the House instructed the Select Standing Committee on Crown Corporations to review the annual reports and service plans of B.C. Crown Corporations. In its oversight role, the main objectives of the Committee are to enhance the accountability and improve the public performance reporting of Crown Corporations.

In preparing its first report of the fifth session of the 37th Parliament, the Committee held six meetings, including a orientation seminar on April 21 and planning session an on April 28. For its first report, the Committee reviewed the service plans and annual reports of one Crown Agency and two Crown Corporations: the British Columbia Liquor Distribution Branch (May 18, 2004), Forestry Innovation Investment Limited (July 12, 2004), and Land and Water British Columbia (September 9, 2004). The Committee deliberated on its report on December 6, 2004.

As part of the review process, senior officers from the selected Crowns appeared before the Committee to present the corporation's latest annual report and service plan. To assess each Crown, committee members considered the 11 key reporting principles contained in the Committee's *Guide to Operations* (see Appendix A). Committee members also had the opportunity to discuss with these senior officers issues of concern or interest arising from the corporation's presentation to the Committee.

Since being reactivated in June 2002, the Committee has reviewed fifteen Crown Corporations and Agencies.

Minutes and transcripts of committee proceedings, as well as previous committee reports, are available at http://www.leg.bc.ca/cmt. The Committee would like to acknowledge the cooperation of the senior officers who appeared before the Committee and look forward to the opportunity to meet with them again for future review.

REVIEW OF BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH

On May 18, 2004, the Select Standing Committee on Crown Corporations met with senior officials of the British Columbia Liquor Distribution Branch (LDB) and reviewed the following documents:

- British Columbia Liquor Distribution Branch, *2002-2003 Annual Report*
- British Columbia Liquor Distribution Branch, *Service Plan for Fiscal Years 2004/05-2006/07.*

The Committee notes that the LDB — as a hybrid organization — takes direct policy advice from the Minister of Public Safety under the *Liquor Distribution Act*, while strategic planning and budgeting purposes are prepared under the guidelines produced by the Crown Agencies Secretariat. As the Liquor Distribution Branch's mandate is to manage and regulate the importation, distribution, and retailing of beverage alcohol in British Columbia, and reports financial and strategic information to the public under the auspices of the Crown Agencies Secretariat, the Committee believes that its review of the LDB's annual reports and service plans fall under the Committee's Terms of Reference.

Committee Observations

1. The Committee was satisfied that the Liquor Distribution Branch's annual report and service plan adequately explained the organization's mandate, core products and services, operating environment, and major challenges in a reasonable and understandable format.

2-3. Overall, committee members were satisfied that the plan focuses on aspects of performance that are critical to the organization achieving its goals, objectives and intended results. The Committee finds that such goals and objectives are well defined and consistent with the achievement of the LDB's mandate — as specified by the Ministry of Public Safety.

4. Within the parameters established by the Minister of Public Safety and Solicitor General — in consultation with the Liquor Distribution Branch — the Committee concluded that the intended level of performance was specified for the planning period.

5, 8. The Committee was only partially satisfied that the Liquor Distribution Branch's intended results were clear, measurable, and provided an integrated and balanced picture of intended performance in relation to the LDB's stated goals and objectives. The Committee was concerned that many of the planned results pertaining to performance measures were listed as "to be determined." Given the LDB's long operational history, the Committee felt that appropriate proxy results for performance measures such as service standards, employee satisfaction, and customer approval rates may have been available.

The Committee also notes that while beverage container management is identified as a key strategic issue (and measured in the *2002-2003 Annual Report*, p. 14), no

measures are given in the *2004/05-2006/07 Service Plan.* As the LDB "plans to review and revise its policies to ensure full cost recovery mechanisms are in place," (p.7) the Committee suggests that performance measures be developed to track both the minimum annual container return rate — estimated to be over 270 million empty beverage containers — and the full costs of container management.

6. The Committee found that the plan demonstrated satisfactorily that the intended results represented a reasonable level of achievement given the historical performance and resources available to the organization of the Branch. The Committee was not satisfied that the Liquor Distribution Branch did not provide comparisons of key performance measure results to similarly-sized organizations. For example, the Committee felt that the LDB should be able to stipulate whether Short Term Illness and Injury Plan and Workers' Compensation Board costs of 4.6 percent or less of payroll are justified and reasonable given the nature of the LDB's business.

7. The Committee was generally satisfied that the plan demonstrated how resources and strategies will influence results. However, some Members suggested that the Liquor Distribution Branch should examine whether more information could be provided as to how the product mix at each store impacts on the LDB's performance with the service plans.

9, 11. The Committee was satisfied that the planned contribution of key activities would positively impact upon goals and objectives. In particular, the Committee was pleased that the LDB was moving to quickly adopt the core principles contained within the Shareholder's Letter of Expectations.

10. Noting the recent organizational challenges faced by the Liquor Distribution Branch, the Committee was satisfied that the LDB had made a reasonable attempt to ensure that its annual report and service plan are set out in a clear comparison. The Committee appreciated the LDB's summary table (Appendix A), which highlighted the justification for the new performance measures contained in *Service Plan 2004/05-2006/07.*

Issues for Future Review

Arising from its initial review, the Committee identified the following issues for ongoing monitoring and future review:

- modernization of liquor distribution
- government liquor store retailing strategies
- promotion of British Columbia wines
- performance measure selection.

The Committee also canvassed the witnesses on the following issues: loss prevention, labour relations, proposals for expanding Sunday liquor store openings, and beverage alcohol pricing and mark-ups.

Modernization of Liquor Distribution

Distributing to private sector retail outlets

Members noted that the continuation of the LDB as both distributor and retailer of beverage alcohol products, appeared to give the LDB an insider advantage in promoting new products or developing a product mix that best captures the markets' tastes vis-à-vis private sector retailers (PSRs). From anecdotal evidence, Members suggested that the heated competition in the rapidly-evolving premium wine category has resulted in more frequent complaints about LDB retailing practices from private sector retailers.

The witness iterated that in addition to the 220 government liquor stores, there are more than 800-plus retailers and 8,000 licensed restaurants in which products may be sold. Accordingly, competition for new and innovated product lines does exist between both public and private sector outlets.

However, the general manager stressed that the private sector retailers' quantity and product selections are not shared with LDB store managers. He noted that he receives "five to ten" comments a year concerning the perception of unfair competitive practices, but that the LDB's relationship with private sector retailers is "generally good." The witness then indicated that if the LDB staff saw something inappropriate, immediate action would be taken to address the issue.

Committee members also requested an update on the Liquor Distribution Branch's efforts to modernize the province's liquor distribution (wholesaling) system. In response, the general manager informed the Committee that the LDB was expecting a consultant's report that reviews the existing business practices and identifies improvements in efficiency in the province's two liquor distribution centres. That report was to be completed by the end of June 2004.

Wholesale prices to private sector retail outlets

Members requested information on the wholesale price structure offered to private sector retailers versus the costs to move products from the distribution centres to the LDB stores.

In response, the witnesses reported that private sector retailers may stock their store in three ways. For high-volume beer products, PSRs must make their purchases from the private, Brewers' Distributor Limited warehouses. All spirits must be distributed through the government liquor stores. With respect to the wine category, all imported wines must be distributed through the government liquor store model; however, domestic wines may be purchased at wholesale prices directly from the wineries, through an intermediary marketing company, or from government liquor stores.

For purchases made by private sector retailers through government liquor stores, products are discounted at a rate of 12 percent. PSRs are permitted to retail the product at any price higher than the wholesale price, and may add a "chill charge" to the price of any retailed product.

Conversely, inventory moving between the LDB's warehouses and stores is accounted for using the retail price of the product, thus, evaluating products based on revenues generated versus costs incurred at the store level is difficult.

The general manager added that at the current discount rate, there are no shortages of PSRs applicants waiting for licensing, on the basis that business cases for liquor store expansion exist.

Government Liquor Store Retailing Strategies

Store locations

Several Members inquired into the Liquor Distribution Branch's strategy for store upgrading and store location/re-location. In particular, Members requested information pertaining to the development of signature stores and their impact on smaller liquor stores, as well as what evaluation criteria is used to determine store locations in smaller communities — particularly whether consideration is given to local commercial impacts.

In response, the general manager stated that signature stores are 10,000 plus square foot retail outlets featuring a significantly-diverse product mix. The stores are located in larger communities such as Vancouver, Port Coquitlam, Prince George and Surrey, and represent shopping destinations similar to that offered by other 'big box' retailers. Given the diverse selection of products, the stores tend to draw from much larger trading areas, thereby permitting the LDB to replace smaller, less economically-efficient stores.

While the impact on nearby retailers is "considered" when entering or exiting a location, the witness noted that the LDB's primary concern is finding the best locations for its stores.

Product selection

Members asked several questions pertaining to the product selection at each of the LDB's stores. In particular, several Members requested information on the process involved in the introduction of new products to LDB stores and the process for removing slow moving products.

With respect to the introduction of new products, the executive director, retail services replied that companies may request product distribution through the government liquor stores and/or through a listing to retail at all the other locations in British Columbia that sell beverage alcohol. The executive director indicated new products listings for sale at government liquor stores are subjected to criteria such as product originality, pricing, and marketing support for retail consideration. As the number of products greatly exceeds the retailing capacity of even the largest government liquor stores, new products must be unique or contribute "something special to the assortment."

Government liquor stores actively monitor categories and products to ensure efficient product turnover. Individual store managers are authorized to clear slow-moving products on site rather than transfer products between stores.

In-store marketing

Noting the anticipated substantial increase in product consultants employed by the LDB (from nine in 2003-04 to 25 in 2004-05), Members inquired into the anticipated benefits associated with providing enhanced customer knowledge. In addition, the committee members asked if in-store product location — particularly in the beer category — within LDB stores had any impact on product sales.

In response, the general manager stated that the increase in products consultants represents a redeployment of LDB staff to destination stores in key markets. The rationale behind using

product consultants is twofold: first, to provide customers with additional product knowledge; and second, to up-sell better quality products. In addition, the LDB is proceeding with plans to develop in-store information kiosks and online information terminals to provide more product information to consumers.

With respect to in-store product placement, the witnesses responded that, in general, products are grouped by price points: premium products are located at the front of the stores; mainstream products in the middle; and economy products (such as beer) towards the back of the stores. Within the beer management category, product location appears to have little impact on sales; rather, factors such as pricing and internal and external marketing tend have a greater effect on sales.

Promotion of British Columbia Wines

The promotion of British Columbia wines was of specific interest to members of the Committee. Committee members requested information on the progress the Liquor Distribution Branch has made to date in facilitating the sale of BC wines at LDB stores at competitive prices.

The witnesses responded that the LDB has introduced several policy changes to promote BC wine products. First, 95 percent of LDB outlets have moved the BC wines section to the stores' entrances. Second, LDB has introduced BC wine advocates to more than 80 stores. These advocates closely work with the wine industry to better market BC wines. To this extent, the LDB focuses on BC wines more than any other category in the store as far as product knowledge and marketing.

The general manager acknowledged that it was not possible for BC Liquor stores to maintain a complete catalogue of B.C. wines for sale for several reasons. First, several of the smaller wineries are unable to provide a consistent quantity for wide distribution, and thus are more adept at retailing through their own stores or through Vinters Quality Alliance stores. Second, as per policy established by the Ministry of Public Safety and Solicitor General, the existing mark-up structure for B.C. wines limits the business case for smaller wineries to distribute through government liquor stores.

Performance Measure Selection

Committee members observed that the Liquor Distribution Branch's *2004/05-2006/07 Service Plan* lacked performance measures for several key goals and objectives. In particular, key measurements for evaluating consumer experiences, wholesale and distribution system efficiency, and service standards were categorized as "To be determined" (Page 11). Similarly, employee satisfaction rates and performance measures pertaining to succession planning were also lacking.

Committee members recognize recent efforts in LDB institutional reform have contributed to uncertainty with respect evaluating both customer satisfaction and benchmarking employee job satisfaction. The Committee also acknowledges that the marketplace in which the LDB stores operate has significantly changed significantly over the last three years. However, as the Liquor Distribution Branch has had years of experience in the beverage alcohol marketplace, committee members were somewhat disappointed that appropriate proxy variables for customer satisfaction could not be incorporated in the interim.

Similarly, Members were concerned that the Liquor Distribution Branch had not provided comparative information on how its performance compares to organizations of similar mandates and/or operational size. Furthermore, as the retailing arm of the LDB competes directly in the beverage alcohol products marketplace, providing comparative performance measures pertaining to LDB's product vis-à-vis private sector firms on an intra- and inter-provincial basis would be valuable to both the consumer and the shareholder.

Recommendations:

Recommendation No. 1:

The Committee recommends that the British Columbia Liquor Distribution Branch implement the Committee's observations and suggestions for improvement in the Branch's future annual reports and service plans — in particular with respect to key reporting principles #5, 6, 7, and 8, as outlined in the "Committee's Observations" section.

Recommendation No. 2:

The Committee recommends that the British Columbia Liquor Distribution Branch release the findings of the consultant's report on improvements to the liquor distribution (wholesaling) system and implement the consultant's recommendations where practical.

Recommendation No. 3:

The Committee recommends that the British Columbia Liquor Distribution Branch work closely with the Ministries of Public Safety and Solicitor General; Small Business and Economic Development; Agriculture, Food and Fisheries; and the more than 90 wineries in the province, to develop and support a comprehensive promotion of B.C.'s wine products.

Recommendation No. 4:

The Committee recommends that the British Columbia Liquor Distribution Branch expedite the development of performance measures and benchmarks; particularly with respect to measures of customer experience, business effectiveness, and employee excellence.

Recommendation No. 5:

The Committee recommends that the British Columbia Liquor Distribution Branch provide comparative information on how its performance rates when to compared to organizations of similar mandates and operational size. In particular, the Committee requests the LDB incorporate performance measures that would indicate the LDB's performance in terms of per capita sales growth and sales growth by specific sectors against organizations of similar mandates and/or operational size.

REVIEW OF FORESTRY INNOVATION INVESTMENT LTD.

On July 12, 2004, the Crown Corporations Committee met with senior officials of Forestry Innovation Investment Ltd. (FII) and reviewed the following documents:

- Forestry Innovation Investment Ltd., *Annual Report 2003-2004*
- Forestry Innovation Investment Ltd., *Service Plan, 2004/05 - 2006/07*
- Minutes of the meetings of the Board of Directors of Company, dated June 2, 2003; September 5, 2003; and January 30, 2004.
- Directors' consent resolutions, dated March 31, 2003 and March 31, 2004.

Committee Observations

In reviewing Forestry Innovation Investment Ltd., the Committee considered the 11 key reporting principles in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1. The Committee was satisfied that the Forestry Innovation Investment Ltd.'s service plan adequately explains the organization's mandate, core products and services, operating environment and major challenges.

2. Committee members were only partially satisfied that the plan focuses on aspects of performance that are critical to the organization achieving its goals, objectives, and intended results. In particular, several Members expressed some concerns as to whether the strategies cited under Goal 2 were sufficient to counter organized campaigns against BC forest products.

3. The Committee was generally satisfied that the goals and objectives were well defined and consistent with, and support of, FII's mandate.

4-5, 8. The Committee was only partially satisfied that the intended level of performance was sufficiently specified and that intended results were clear, measurable, concrete, and consistent with goals and objectives. Furthermore, several committee members indicated that both financial and non-financial performance measures were inadequately specified.

   Members noted that many of the in-process performance measures were overly qualitative rather than quantitative in nature — thus may not yield year-to-year financial performance data of significance. With such information lacking, committee members believe that FII may have difficulty assessing investment value.

   In particular, quantitative performance measures pertaining to increased market acceptance and demand in emerging markets (Goal 1, Objective 3) must be developed as to ensure suitable return on investments are achieved.

6. As a new organization, the Committee was not in a position to evaluate whether the plan demonstrated satisfactorily that intended results represented a reasonable/ appropriate level of achievement given historical performance, resources available to the organization, and performance compared to that of similar organizations.

7. Committee members were only partially satisfied that the service plan demonstrates how resources and strategies will influence results. In particular, committee members questioned whether FII's apparent emphasis on passive, internet-based tools, were sufficient to provide effective dissemination of information pertaining to BC's sustainable forest management practices. Furthermore, some Members expressed concerns that concentrating research on emerging markets may result in potential losses of market share in large, mature markets.

9. The Committee was generally satisfied that the planned contribution of key activities to intended results or goals/objectives was adequately demonstrated. However, several Members indicated that summary information relating to programs/research contracts — awarded in areas such as market research and product development — should be presented in a user-friendly format within the annual report.

10. The Committee was partially satisfied that the actual performance (in the annual report) and the intended performance (in the service plan) set out a clear structure for comparison. It was noted that Goals 1 and 2 listed in the annual report were partially combined into Goal 1 of the service plan without adequate explanation.

11. The Committee was only partially satisfied that the relevant core principles enunciated by Government policies were evident in the planning and operations of FII. Members commented that as a relatively new organization, it may be too early to assess whether current marketing and product development expenditures are providing a sufficient return on investment.

Issues for Future Review

Arising from its initial review, the Committee identified the following issues for ongoing monitoring and future review:

- emerging markets
- market research expenditures — United States
- performance measure development
- evaluating research expenditures
- *Forest Science Program* update.

The Committee also canvassed the witnesses on building linkages with producer and industry associations as well as emerging international competition in forest products.

Following the review, committee members requested that FII provide the Committee with the following information:

- percentage breakdown of BC wood products exports by market,
- summary information on research projects conducted under the *Forest Science Program* for 2003/04 and 2004/05 (provided in conjunction with the Ministry of Forests), and
- summary information on market research conducted by FII 2002/03 to 2004/05.

Emerging Markets

BC wood product exports to China

In light of strong competition from forest products in Russia and the Baltic states, committee members expressed some reservations that Forestry Innovation Investment Ltd.'s strategy of promoting BC forest products in China would significant returns on investment. Given the relative high cost of BC wood products vis-à-vis global competitors, Members inquired into FII's plans for expanding BC's share of the Chinese market.

In response, the president of Forestry Innovation Investment Ltd. stated that FII is marketing BC wood as a premium product for high-end housing applications and commercial and institutional buildings, "where the developer is looking for quality, reliability, and supply stability." Although classified as niche market, the witness informed the Committee that there exists enormous potential for growth given that China is averaging 10 million housing starts per year.

In addition, the vice-president of international marketing stated that there exists real promise for BC wood exports for use in re-manufactured products such as windows, doors and cabinetry, as well as for the export of lower quality wood products for pallet manufacturing.

Dream Home China project

Several members expressed interest in the $12 million Dream Home China project — a demonstration centre located in Shanghai's Pu Dong district — designed to showcase the wide range of BC structural and finished wood products. As a wholly-owned subsidiary of FII, committee members requested information as to how FII will evaluate whether the three-year marketing goals have been achieved (Annual Report, p. 31). In particular, committee members noted that as baseline performance measures were still in development (Service Plan, p. 20-21), it would be difficult to assess whether measurable gains are apparent during the life of the project.

In response, the witnesses stated that while BC's total wood exports to China have doubled in the last year, only 500 wood framed houses were constructed last year. However, the Chinese developer chosen to construct the Dream Home demonstration centre has expressed interest in constructing wood framed homes, and has committed to build 100 wood-framed town houses. As one of the largest developers in China, this developer has the ability to choose wood to construct thousands of units of housing.

Furthermore, the president responded that both the national and local levels of government are becoming increasingly concerned about sustainable forest management and green construction, to which BC may have a marketing advantage over lower-cost producers.

Market and product research — India

Committee members were impressed by the diversity of research programs conducted under the International Marketing and Product Development projects and FII's internal market research reports — as identified in the *2003/04 Annual Report*. However, some committee members noted that little in the way of international marketing and product development was being allocated to developing exports to India.

In response, the vice-president of international marketing indicated that FII is monitoring India for potential long-term growth, noting that existing import tariffs of five percent and 20 percent on raw log and sawn lumber imports have hindered the development of this market. Furthermore, as India has been traditionally a hardwood marketplace, demand for BC softwood products is small. The witness indicated that FII would continue to monitor the marketplace for regulatory change.

Market Research Expenditures — United States

Noting that 79 percent of BC commodity wood product exports were being shipped to the United States, committee members questioned whether the market research and product development priorities of FII were properly allocated — noting that the total research investments for North America approximates $2.3 million (28 percent) of FII's $8.2 million research investments in 2003/04. Members expressed concern that in light of increasing global competition, a lack of research investment in our strongest export market may produce long-term erosion of BC's market share.

The deputy minister of Forests responded that while exports to the United States have remained relatively constant, BC's total share is decreasing due to increased consumer demand — demand that is currently filled by Scandinavian producers. However, in light of the persistent trade barriers and market pressures around BC environmental standards, the witness stated that the current level of investment "is suitable for that market."

Performance Measure Development

Overall assessment

The Committee recognizes that Forestry Innovation Investment Ltd. is a new organization and is still in the process of developing benchmark performance measures. However, committee members believe that FII must strengthen its commitment to providing clear, measurable, concrete, and consistent performance measures that are in line with its stated goals and objectives. To this extent, the Committee proposes that FII adopt and implement performance measures that will permit statistical or quantitative analysis from year to year.

The Committee also observed that where numerical benchmark performance measures are given, FII has not shown a desire to improve the efficiency of the organization. In particular, the number of research programs remains static; no reductions in administration cost are indicated; and a net reduction in the number of audits of programs administered through the International Marketing and Product Development projects is projected.

Marketing performance measures

Committee members appreciated the detail of the market research programs contained within the report. However, committee members noted that the performance measures given indicated that FII wishes to "increase market acceptance" and "increase use of wood frame construction." However, no indication is given as to what are the existing levels of market acceptance and usage of wood framed construction, nor an suggestion of the anticipated levels of growth in the service plan. In addition, there are no marketing objectives/performance measures given for how FII intends to maintain BC's wood market share in the United States.

Communication performance measures
The Committee was generally receptive to the performance measures given to evaluate FII's communication of BC's sustainable forest management practices. Committee members suggest that a quantitative performance measure be developed to assist in the evaluation of the dissemination of relevant information.

Research performance measures
Committee members were impressed by the diversity of research programs conducted under the International Marketing and Product Development projects and FII's internal market research reports — as identified in the *2003/04 Annual Report*. However, Members found that performance measures pertaining to FII's research agenda(s) were vague and lacked quantitative performance variables.

Committee members believe that in order to fairly assess whether FII's International Marketing and Product Development projects are delivering value for money, it is imperative to:

- indicate the number of research projects conducted on a yearly basis — both internally and through external research bodies,
- establish a baseline and anticipate future research expenditures, and
- continue to monitor these research projects, as indicated in Goal 4, Objective 2(b).

Governance performance measures
Given the above-noted challenges, the Committee suggests that measuring the "percentage of corporate performance targets achieved," (p. 28) may be premature, as many of the baseline measures are incomplete.

The Committee recognizes that FII is but one agency promoting BC Forest products on the global market. However, the Committee believes that FII should work closely with research partners and other agencies to assess whether the research and marketing investments made are delivering an appropriate return on investment.

Forest Science Program Update

Committee members inquired into the status of the $207,000 Forest Investment Account — *Forest Science Program*, which was formally administered by Forestry Innovation Investment Ltd. Members requested that the president provide information pertaining to the awarding of the program's administration contract as well as summary information on contracts awarded for 2003/04 and 2004/05.

In a written response, the president indicated:

> *that request for proposals for "Administration of the Forest Science Program, Forest Investment Account" was issued August 22, on BC Bid. Fourteen people attended a proponents meeting, and five companies submitted proposals in response to the RFP. A panel of six reviewers evaluated the proposals looking at proposed methodology (related to innovation, continuous improvement, scheduling, equipment, and compatibility with Ministry systems) and management (proponent experience, project supervision and personnel, organization and client*

references). Price was considered in relation to the total evaluation of points for the technical methodology and management using the lowest price per point method. PricewaterhouseCoopers had the lowest price per point and was selected as the new Administrator for the Forest Science Program. (July 19, 2004).

The witness, in conjunction with the Ministry of Forests, provided the Committee with summaries of all projects funded under the *Forest Science Program* for the requested years.

Committee Recommendations

Recommendation No. 6:

The Committee recommends that Forestry Innovation Investment Ltd. implement the Committee's observations and suggestions for improvement in FII's future annual reports and service plans — in particular with respect to key reporting principles #2, 4, 5, 7, 8, 9, and 11.

Recommendation No. 7:

The Committee recommends that Forestry Innovation Investment Ltd. present information on whether intended results represented a reasonable/appropriate level of achievement given historical performance, resources available to the organization, and performance of similar organizations in future annual reports and service plans — in line with key reporting principle #6.

Recommendation No. 8:

The Committee recommends that Forestry Innovation Investment Ltd. establish quantifiable baseline performance levels and realistic performance targets for investments made in the Dream Home China project. Such performance data may include the number of site visits by contractors and number of contractors adopting wood framed construction (including the number of contractors sourcing BC forest products).

Recommendation No. 9:

The Committee recommends that Forestry Innovation Investment Ltd. continue to monitor opportunities for BC wood exports to India and other developing markets in Asia.

Recommendation No. 10:

The Committee recommends that Forestry Innovation Investment Ltd. examine whether additional product and market research expenditures focused on maintaining United States market share may provide a more significant return on investment.

Recommendation No. 11:

The Committee recommends that Forestry Innovation Investment Ltd., with respect to baseline performance measure development:

a. commit to providing clear, measurable, concrete, and consistent performance measures in line with all of FII's stated goals and objectives;

b. provide quantifiable performance measures on how FII intends to maintain and grow BC wood exports to the United States;

c. provide quantifiable performance measures on how FII intends to maintain and grow BC wood exports to emerging markets;

d. establish baselines for the length of time FII takes to disseminate relevant information, and monitor whether information reached intended targets;

e. provide comparative information on number of research projects conducted on a yearly basis — both internally and through external research bodies; establish a baseline and anticipate future research expenditures; and continue to monitor research projects, as indicated in Goal 4, Objective 2(b).

f. eliminate the performance measure "percentage of corporate performance targets achieved." (Goal 4, Objective 1[b]).

Recommendation No. 12:

The Committee recommends that Forestry Innovation Investment Ltd. continue to provide web linkages to the Forest Science Account — *Forest Research Program*, as to ensure consumers, academics, and the public may access all available scientific, market, and product research conducted under the Forest Science Account from a single web portal.

REVIEW OF LAND AND WATER BRITISH COLUMBIA INC.

On September 9, 2004, the Select Standing Committee on Crown Corporations met with senior officials Land and Water British Columbia Inc. (LWBC) and reviewed the following documents:

- Land and Water British Columbia Inc., *Service Plan Report Fiscal 2003 — 2004*
- Land and Water British Columbia Inc., *Service Plan Fiscal 2004/2005 — 2006/2007*
- Minutes of the meetings of the Board of Directors, dated June 28, 2002 to June 30, 2004.

Committee Observations

In reviewing Land and Water British Columbia Inc., the Committee considered the 11 key reporting principles in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1. The Committee was satisfied that Land and Water British Columbia's service plan adequately explains the organization's mandate, core products and services, operating environment and major challenges.

2. The Committee was generally satisfied that LWBC's service plan focuses on aspects of performance that are critical to the organization achieving its goals, objectives and intended results.

3. The Committee was satisfied that the goals and objectives specified by LWBC are well defined and supportive of the achievement of the mandate.

4, 5. The Committee was satisfied that the intended level of performance for the planning period was sufficiently specified , and that the intended results are clear, measurable, concrete and consistent with LWBC's stated goals and objectives.

6. Members were generally satisfied that LWBC's service plan demonstrated that intended results represent a reasonable/appropriate level of achievement given the organization's historical performance and resources currently available to the organization. Some committee members noted that no information on how LWBC anticipated performance compares to organizations of a similar size and/or mandate and that historical information relating to changes in customer satisfaction rates were difficult to evaluate.

7, 9. The Committee was generally satisfied that the service plan demonstrates how resources and strategies will influence LWBC's goals and objectives. However, some Members noted that several of the strategies listed to meet reporting targets — such as dedicating resources to improve the services for key accounts (Goal 3, Objective 1, p. 22) — were overly-vague to be of real value.

8. The Committee was satisfied that financial and non-financial performance measures given provide an integrated and balanced picture of intended performance.

10. Committee members were satisfied that the actual (annual report) and intended (service plan) performances were set out in clear comparison.

11. The Committee was satisfied that relevant core principles enunciated by Government policies are evident in the planning and operations of Land and Water BC Inc. Members noted that a favourable shift towards client-focused service activities has been accomplished in relatively short period of time. In addition, Members remarked that LWBC has worked diligently in addressing the organizational shortcomings first addressed in its *Service Plan Report Fiscal 2003 - 2004.*

Issues for Future Review

Arising from its initial review, the Committee identified the following issues for ongoing monitoring and future review:

- customer satisfaction performance measures
- intergovernmental cooperation
- new business development
- limits on land sales
- agricultural access to Crown lands
- sale of lands on Burke Mountain (Coquitlam)
- Olympic-related development.

The Committee also canvassed the witnesses on the process for appealing LWBC decisions; an overview of land sales versus land leases; measuring application processing times; and potential impact of aboriginal treaty claims on Crown lands.

Customer Satisfaction Performance Measures

In comparing the 2003 customer satisfaction survey conducted by LWBC to performance targets on customer satisfaction cited in LWBC's *Service Plan Report Fiscal 2003 —2004* and *Service Plan Fiscal 2004/2005 — 2006/2007*, Members observed that LWBC does not present historical rates pertaining to changes in customer satisfaction in a clear and concise manner.

For example, *Service Plan Report Fiscal 2003 — 2004*, establishes a baseline "post sales customer satisfaction" level of 61 percent. However, the chief executive officer stated in his presentation that LWBC'S 2003 customer satisfaction survey yielded a favourable response rate of 84 percent: yet the baseline measure for measuring customer satisfaction established in *Service Plan Fiscal 2004/2005 — 2006/2007* — improvement on issues identified with key accounts as measured by annual focus group sessions — is set at only 70 percent. Members requested an explanation for the discrepancy between the selected performance measures and the actual results.

In his response, the president and chief executive officer of Land and Water British Columbia Inc. stated that the value cited in the 2003 customer satisfaction survey was a "general response" of the public's satisfaction with the organization: the 70 percent value refers to "specific areas" in customer satisfaction which require improvement.

Members found this aggregation of customer satisfaction performance, and frequent definitional and methodological changes in the measurement of customer satisfaction unduly confusing. While "post sales customer satisfaction" (page 9, *Service Plan Report Fiscal 2003 — 2004*) appears as a clear and concise reporting measure, this measure is replaced in the *Service Plan Fiscal 2004/2005 — 2006/2007* by three performance measures pertaining to customer satisfaction (p. 23). Because LWBC has changed what is measuring in terms of customer satisfaction, the established baseline, as presented in the reports, no longer has value as a comparative tool.

Intergovernmental Cooperation

Noting the potential for conflict between competing uses of public lands, Members inquired into the process used by LWBC to assign tenures to various land uses on BC Crown Lands, and requested information on the level of interagency and intergovernmental cooperation in assigning tenures.

The chief executive officer responded that on some land areas, up to seven different types of tenure may simultaneously exist. Land and Water British Columbia Inc. works closely with the Ministries of Forests, Energy and Mines and Water, Land, and Air Protection, as well as the Oil and Gas Commission to assign tenures on the basis of "highest and best use" where potential and existing clients have an interest in the same land base.

The CEO stated that the Board of LWBC is composed of himself, six deputy ministers, and the executive vice-president of B.C. Buildings Corporation. In addition, LWBC works closely with the deputy ministers' committee, which reports to the cabinet committee of economic recovery and development on corporate issues associated with land use.

New Business Development

Committee members queried the chief executive officer on how the reorganization of LWBC's operations had affected its ability to proactively develop and promote new business opportunities to maximize the economic value of British Columbia's Crown lands.

In response, the CEO stated that the management structure of LWBC is currently organized to develop and serve key land use sectors. He cited three examples — all-season resort development, aggregate sales, and mariculture — as three sectors that have an allocated staffing component to aid and promote development in these sectors.

Additionally, the CEO replied that while the historical culture of the organization has been to respond to applications for development made by the private sector, it is working towards becoming more pro-active in terms in looking for future opportunities by developing information technology and information management to better manage Crown lands.

Limits on Land Sales

Several Members asked questions around the limitations placed on the sale of Crown lands. In particular, Members requested information on the primary locations of land sales in British Columbia and whether there exists any restrictions on the sale of Crown lands.

The CEO responded that most of LWBC's land sales occur in the lower mainland, which are largely already under fee simple ownership. The land sold in the lower mainland is primarily to service industrial and infrastructure demands in that region.

With respect to restrictions in place on the sale of lands, the vice-president of LWBC stated that almost all properties surveyed and subject to a lease are available for sale — unless "there is a good public policy reason not to sell off the resource." However, the biggest obstacle in selling Crown lands is price, as LWBC will not sell properties below fair market value.

In addition, the Land Act contains a statutory limit on the parcel size available for sale: as well, it precludes the sale of lands of provincial lands to non-Canadian residents and to corporations not registered in Canada.

Agricultural Access to Crown Lands

Some Members relayed concerns that access to agricultural parcels of Crown lands is being unduly impeded in some districts due to the presence of existing forestry tenures. Committee members expressed frustration that it appears that LWBC is not proactively seeking out alternative uses of the land base — particularly in the Cariboo region — in light of the devastation being caused by the mountain pine beetle.

In response, the vice-president acknowledged that agreements between forest and agricultural uses for Crown lands in the Cariboo region have been difficult to obtain; however, LWBC has had success in negotiating agreements with the Ministry of Forests in the Vanderhoof and Prince George areas. In particular, he noted that by adopting a different way of valuing timber on agricultural leases, a number of leaseholders have been able to recently purchase their leases.

Sale of Burke Mountain Lands (Coquitlam)

Noting the significant revenues generated by the sale of 72.2 hectares of Crown land on Burke Mountain for residential development, committee members requested information on the public, stakeholder, and agency consultations conducted by Land and Water British Columbia Inc. prior to the sale.

In a written response, the CEO indicated:

> *that LWBC consulted with the following organizations: the Cities of Coquitlam and Port Coquitlam; Coquitlam School District; various First Nations; the Ministries of Education, Forests, Transportation, Attorney General, and Sustainable Resource Management; the Treaty Negotiation Office, BC Housing, Partnerships BC, the development industry and others.*
>
> *With respect to First Nations concerns, the disposition of the Crown land was undertaken by LWBC in accordance with the Provincial Policy for Consultation with First Nations, LWBC's Aboriginal Interest Assessment Procedures, Aboriginal Interest Consideration Procedures and other information. Despite several written requests, no information was received from the Kwikwetlem, Katzie, Tsawwassen, Tsliel — Waututh, Sto:lo, Kwantlen, or Douglas First Nations. However, many discussions with the Kwikwetlem First Nation have taken place. LWBC is satisfied, based on the available information, that it has fulfilled any duties that the province may have to First Nations in relation to this sale.*
>
> *As the primary benefiting municipality, the City of Coquitlam is responsible for the consultations surrounding updating the City's Official Community Plan and associated neighbourhood plans for northeast Coquitlam. There were many committee, information meetings, and hearings where the public could participate dating back to 1996 respecting the proposed development of northeast Coquitlam. The City of Coquitlam also consulted with the*

City of Port Coquitlam respecting the proposed development of northeast Coquitlam, and the parties entered into a Memorandum of Understanding on July 25, 2001. In addition, eight new school sites have been identified in the community plan, with a mechanism to identify and reserve provincial control over the school sites.

Olympic-Related Development

As Land and Water British Columbia Inc. has identified the 2010 Winter Olympic Games as a component of its external operating environment, Members requested information on the implications of LWBC "ensuring Crown land is available to meet the needs of the 2010 Olympics." In particular, Members requested that the chief executive officer outline what Crown land has been already identified for Olympic use.

In response, the CEO stated that the Callaghan Valley has been identified as a site for the Olympic Nordic Centre. LWBC is working closely with the Vancouver Organizing Committee to ensure that required site is available and ready for development.

In addition, LWBC is working with Ministry of Transportation, and the Lil'wat and Squamish First Nations to ensure appropriate consultation and accommodation packages — including the possible disposition of land to the First Nations.

Committee Recommendations

Recommendation No. 13:

The Committee recommends that Land and Water British Columbia Inc. implement the Committee's observations and suggestions for improvements in its future annual reports and service plans — in particular with respect to key reporting principles #6 and 7 as outlined under the "Committee's Observations" section.

Recommendation No. 14:

The Committee recommends that Land and Water British Columbia Inc. adopt a standardized methodology for assessing customer satisfaction and clearly define that performance measure in its future annual reports and service plans.

Recommendation No. 15

The Committee recommends that Land and Water British Columbia Inc. work closely with the Ministry of Forests to ensure that agricultural uses of Crown lands are not being unduly hindered, in light of the devastation to the province's forests by the mountain pine beetle.

SUMMARY OF RECOMMENDATIONS

The Committee recommends:

1. that the British Columbia Liquor Distribution Branch implement the Committee's observations and suggestions for improvement in the Branch's future annual reports and service plans — in particular with respect to key reporting principles #5, 6, 7, and 8, as outlined in the "Committee's Observations" section.

2. that the British Columbia Liquor Distribution Branch release the findings of the consultant's report on improvements to the liquor distribution (wholesaling) system and implement the consultant's recommendations where practical.

3. that the British Columbia Liquor Distribution Branch work closely with the Ministries of Public Safety and Solicitor General; Small Business and Economic Development; Agriculture, Food and Fisheries; and the more than 90 wineries in the province, to develop and support a comprehensive promotion of B.C.'s wine products.

4. that the British Columbia Liquor Distribution Branch expedite the development of performance measures and benchmarks; particularly with respect to measures of customer experience, business effectiveness, and employee excellence.

5. that the British Columbia Liquor Distribution Branch provide comparative information on how its performance rates when to compared to organizations of similar mandates and operational size. In particular, the Committee requests the LDB incorporate performance measures that would indicate the LDB's performance in terms of per capita sales growth and sales growth by specific sectors against organizations of similar mandates and/or operational size.

6. that Forestry Innovation Investment Ltd. implement the Committee's observations and suggestions for improvement in FII's future annual reports and service plans — in particular with respect to key reporting principles #2, 4, 5, 7, 8, 9, and 11.

7. that Forestry Innovation Investment Ltd. present information on whether intended results represented a reasonable/appropriate level of achievement given historical performance, resources available to the organization, and performance of similar organizations in future annual reports and service plans — in line with key reporting principle #6.

8. that Forestry Innovation Investment Ltd. establish quantifiable baseline performance levels and realistic performance targets for investments made in the Dream Home China project. Such performance data may include the number of site visits by contractors and number of contractors adopting wood framed construction (including the number of contractors sourcing BC forest products).

9. that Forestry Innovation Investment Ltd. continue to monitor opportunities for BC wood exports to India and other developing markets in Asia.

10. that Forestry Innovation Investment Ltd. examine whether additional product and market research expenditures focused on maintaining United States market share may provide a more significant return on investment.

11. that Forestry Innovation Investment Ltd., with respect to baseline performance measure development:

    a. commit to providing clear, measurable, concrete, and consistent performance measures in line with all of FII's stated goals and objectives;

    b. provide quantifiable performance measures on how FII intends to maintain or grow BC wood exports to the United States;

    c. provide quantifiable performance measures on how FII intends to maintain and grow BC wood exports to emerging markets;

    d. establish baselines for the length of time FII takes to disseminate relevant information, and monitor whether information reached intended targets;

    e. provide comparative information on number of research projects conducted on a yearly basis — both internally and through external research bodies; establish a baseline and anticipate future research expenditures; and continue to monitor research projects, as indicated in Goal 4, Objective 2(b).

    f. eliminate the performance measure "percentage of corporate performance targets achieved." (Goal 4, Objective 1[b]).

12. that Forestry Innovation Investment Ltd. continue to provide web linkages to the Forest Science Account — *Forest Research Program*, as to ensure consumers, academics, and the public may access all available scientific, market, and product research conducted under the Forest Science Account from a single web portal.

13. that Land and Water British Columbia Inc. implement the Committee's observations and suggestions for improvements in its future annual reports and service plans — in particular with respect to key reporting principles #6 and 7 as outlined under the "Committee's Observations" section.

14. that Land and Water British Columbia Inc. adopt a standardized methodology for assessing customer satisfaction and clearly define that performance measure in its future annual reports and service plans.

15. that Land and Water British Columbia Inc. work closely with the Ministry of Forests to ensure that agricultural uses on Crown lands are not being unduly hindered, in light of the devastation to the province's forests by the mountain pine beetle.

APPENDICES

Appendix A: "Key Reporting Principles" Considered by the Committee

Questions	Yes	Partly	Not at all	Comments
1. Does the plan adequately explain the organization's mandate, core products and services, operating environment and major challenges?				•
2. Does the plan focus on aspects of performance that are critical to the organization achieving its goals, objectives and intended results?				•
3. Are the goals and objectives well defined and consistent with and supportive of the achievement of the mandate?				•
4. Is the intended level of performance for the planning period specified?				
5. Are the intended results clear, measurable, concrete and consistent with goals or objectives?				•
6. Has the plan demonstrated satisfactorily that intended results represent a reasonable/appropriate level of achievement given: • Historical performance, • Resources available to the organization, and • Performance of similar organizations?				•
7. Does the plan demonstrate how resources and strategies will influence results?				•
8. Are financial and non-financial performance measures provided to give an integrated and balanced picture of intended performance? 9. Is the planned contribution of key activities to intended results or goals/objectives adequately demonstrated?				• •
10. Are actual (Annual Report) and intended (Service Plan) performances set out in a clear comparison?				
11. Are the relevant core principles enunciated by Government policies evident in the planning and operations?				•

Other General Comments:

Appendix B: Schedule of Crown Corporations Reviewed

Crown Corporation reviewed	Date of initial review
First Report, 5th Session, 37th Parliament — tabled October 2004	
Land and Water British Columbia Inc	September 9, 2004
Forestry Innovation Investment Ltd.	July 12, 2004
British Columbia Liquor Distribution Branch	May 18, 2004
Third Report, 4th Session, 37th Parliament — tabled February 2004	
Oil and Gas Commission	November 26, 2003
British Columbia Housing Management Commission	November 19, 2003
Second Report, 4th Session, 37th Parliament — tabled November 2003	
Organized Crime Agency of British Columbia	October 8, 2003
Homeowner Protection Office	July 8, 2003
BC Hydro	June 11, 2003
British Columbia Utilities Commission	May 28, 2003
Insurance Corporation of British Columbia	May 8, 2003
First Report, 4th Session, 37th Parliament — tabled May 2003	
British Columbia Securities Commission	October 30, 2002
First Report, 3rd Session, 37th Parliament — tabled November 2002	
BC Transit	October 2, 2002
Tourism BC	October 2, 2002
British Columbia Lottery Corporation	September 4, 2002
BC Buildings Corporation	July 8, 2002